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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Magna International Second Quarter 2018 Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded today, Wednesday, August 8, 2018.

And now it's my pleasure to turn the conference over to Louis Tonelli, VP, Investor Relations. Please go ahead.

Louis Tonelli - *Magna International Inc. - VP of IR*

Thank you. Good morning, everyone, and welcome to our second quarter 2018 conference call. Joining me today are Don Walker, Chief Executive Officer; Vince Galifi, Chief Financial Officer; and Swamy Kotagiri, Chief Technology Officer. In addition, Eric Goldstein and Jim Floros from the Investor Relations team are here.

Yesterday, our Board of Directors met and approved our financial results for the second quarter ended June 30, 2018. We issued a press release this morning for the quarter. You'll find the press release, today's conference call webcast, the slide presentation to go along with the call and our updated quarterly financial review all in the Investor Relations section of our website at magna.com.

Before we get started, just as a reminder, the discussion today may contain forward-looking information or forward-looking statements within the meaning of applicable securities legislation. Such statements involve certain risks, assumption and uncertainties, which may cause the company's actual or future results and performance to be materially different from those expressed or implied in these statements.

Please refer to today's press release for a complete description of our safe harbor disclaimer.

As we review financial information today, please note that all figures are discussed in U.S. dollars unless otherwise noted.

We've included in the appendix reconciliations of certain key financial statement lines for Q2 2018 and Q2 2017 between reported results and results excluding unusual items. Our quarterly earnings discussion today excludes the impact of unusual items.

And now I'll pass the call over to Don.

Donald James Walker - *Magna International Inc. - CEO & Director*

Thanks, Louis. Hello, everyone.

Today, I will review Q2 highlights, including our record second quarter results, our agreement with BJEV to jointly engineer and build premium electric vehicles in China, the recently announced deal to acquire a European-based lighting supplier, OLSA, and brief update on our partnership with Lyft, and our estimate of the impact of recent tariffs put in place.

Let's start with our second quarter.

We posted second quarter records for sales, adjusted EBIT and diluted earnings per share. We also returned $844 million to shareholders in the form of share repurchases and dividends, bringing our 6-month total return to approximately $1.1 billion.

Our Body Exteriors & Structures segment reported higher sales, adjusted EBIT and EBIT margin percentage year-over-year in the second quarter.

Excluding the impact of the fire at Tier 1 supplier Meridian Technologies, which disrupted Lyft production and a number of our customers, adjusted EBIT margin was in line with our internal expectations.

Excluding the impact of Meridian, our Seating segment was also in line with our expectations.

Our Complete Vehicle segment experienced lower Mercedes-Benz G Class production at our assembly operations, partly anticipated due to a change over to the new G Class in the second quarter and partly due to 2 unrelated supplier issues on the program's launch. The lower G Class volumes and the associate increase in launch and other costs negatively impacted this business in the second quarter.

Our Power & Vision segment posted higher second quarter sales, adjusted EBIT and EBIT margin percent compared to Q2 2017. Our consolidated Power & Vision operations were in line with our internal expectations for the quarter. However, equity income at GETRAG, while being higher year-over-year, was lower than our expectations. This was mainly the result of a write-down of inventory and receivables and an expected commercial pricing settlement that did not materialize in the quarter, both with 1 particular customer. Higher warranty costs and lower-than-expected production volumes on certain transmission programs, which together, led to lower unconsolidated sales and earnings.

We now expect lower production volumes for the balance of the year in certain transmission programs and reduced equity income than previously anticipated from GETRAG's joint ventures, particularly in China. We expect this headwind will impact GETRAG's joint venture results beyond 2018. Forecasting volumes and mix for our transmissions in China has been difficult. We've experienced more volatility than we were accustomed to with several Chinese OEMs. While we continue to see growth and opportunities for further penetration of DCTs, based in our latest projections, we are expecting reduced DCT and manual transmission volumes in our joint venture operations relative to our previous expectations through at least 2020. Note their wholly owned operations continues to perform well, with stronger-than-expected growth in our European business.

Now let me discuss our progress in a couple of strategic areas.

In June, we announced an agreement to jointly engineer and build premium electric vehicles in China with Beijing Electric Vehicle company named BJEV, a subsidiary of BAIC group. We expect to form 2 new joint ventures with BJEV, one for complete vehicle manufacturing and one for engineering of electric vehicles. The engineering and manufacturing joint ventures are expected to take over an existing BAIC manufacturing facility, where the first production vehicles are planned for 2020. Plant has the capacity to build up to 180,000 vehicles per year. It will be available to other OEMs, as well as start-ups. This is the first time we'll have the ability to build cars outside of our complete vehicle manufacturing facility in Graz, Austria. China is the world's leader in the market for electric mobility.

In late June, Magna signed a deal to acquire Italy-based OLSA S.p. A., which will expand our lighting capabilities to design, engineer and manufacture headlamps, taillamps and other lighting products around the world. The transaction values OLSA at approximately EUR 230 million, and is expected to close by the end of 2018.

OLSA, which has manufacturing facilities in Italy, Poland, Brazil, China and Mexico, expands the footprint of our lighting operations beyond North America. OLSA's customers include Volkswagen, BMW, Daimler and SCA.

Lighting represents a growth area for Magna due to increasing levels of electronics integration and a desire for automakers to differentiate their vehicles through styling. OLSA brings Magna advanced technology that will enhance our portfolio of distinctive feature-rich products.

I'd like to provide a brief update on our partnership with Lyft. We closed on our equity investment in the second quarter and have been working closely with the Lyft team. We're very pleased with the level of cooperation and communication that we're seeing from Lyft. We're actively recruiting on the West Coast and have already placed some Magna people on site. We look forward to providing you with updates in the future. And hopefully, you can appreciate the sensitive nature of this project.

And lastly, beginning in the third quarter, we expect our earnings to be impacted by Section 232 and 301 tariffs. On an annualized basis, our expect -- estimated exposure is approximately $60 million, with approximately $30 million impacting us in the back half of 2018.

With that, I'll pass the call over to Vince.

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Thank you, Don, and good morning, everyone.

Overall, we posted strong second quarter consolidated results despite some of the challenges Don mentioned.

Second quarter record included consolidated sales of $10.3 billion, consolidated adjusted EBIT of $803 million, which is up 6% over the second quarter of 2017, net income attributable to Magna of $590 million, up 7% from Q2 of 2017, and adjusted diluted EPS of $1.67, which is up 15% year-over-year.

We also returned $844 million to shareholders through share repurchases and dividends.

Lastly, we made several changes to our outlook for the year, including reducing our sales and net income outlook. I'll cover each of these in my financial review.

Our consolidated sales were $10.3 billion, an increase of 12% over the second quarter of 2017. Excluding foreign currency fluctuations and the net impact of acquisitions and divestitures, consolidated sales rose by 9%. The Meridian fire impacted our sales by about $70 million or slightly less than 1% during the quarter. We delivered sales growth in each of our operating segments.

The higher sales largely reflect the launch of new programs, particularly in our Body Exteriors & Structures and Complete Vehicle segments, and the $359 million positive impact from foreign exchange translation.

EBIT margin percent declined to 7.8% in the second quarter from 8.3% in the second quarter of 2017. This decline was driven entirely by the increase in the proportion of sales generated by Complete Vehicle segment, which operates at lower margins than our consolidated average. Body Exteriors & Structures and Power & Vision each drove slight improvements in EBIT margin percent, offset by seating systems and corporate.

Note that corporate included $22 million in higher unrealized foreign exchange losses year-over-year related to a translation of net deferred tax assets.

Overall, adjusted EBIT increased 6% to $803 million.

Year-over-year equity income increased $18 million or 33% to $72 million in the second quarter of 2018, mainly reflecting higher unconsolidated sales and earnings versus Q2 of 2017 at GETRAG's joint ventures. However, as Don noted, the increase in second quarter was less than anticipated as a result of a write-down of inventory and receivables related to one customer, an expected commercial pricing settlement with a customer that did not materialize, higher warranty costs and lower transmission volumes than expected.

Our effective tax rate declined to 23.1% from 24.5% a year ago, largely reflecting the benefit of U.S. tax reform.

Adjusted net income attributable to Magna was $590 million compared to $551 million in Q2 2017, mainly reflecting higher EBIT, as well as the lower tax rate.

Adjusted diluted EPS grew 50% or $0.22 to $1.67 for the quarter compared to $1.45 last year. The higher foreign exchange loss and net deferred tax assets and the earnings impact in the Meridian fire each negatively impacted EPS by approximately $0.04. In addition to the higher net income, the increase in EPS reflects the 7% decline in shares outstanding.

Now let's take a look at our segments.

Body Exteriors & Structures sales were $4.6 billion, an 11% increase from a year ago. The increase in sales reflects new program launches and the strengthening of currencies against the U.S. dollar, partially offset by the impact of changes in production volumes and other programs. Excluding the impact of currency, sales increased by 8%.

Body Exteriors & Structures adjusted EBIT margin improved by 30 basis points to 8.5%. The increased primarily represents productivity and efficiency improvements, higher foreign exchange gains and higher scrap field recoveries. These factors were partly offset by higher launch costs and loss of earnings related to the Meridian fire.

Power & Vision sales increased 11% to $3.2 billion. The increase reflects new program launches, as well as the strengthening of currencies against the U.S. dollar, partially offset by a divestiture this past quarter. Excluding the impact of foreign currency translation and the net impact of the divestitures, sales rose by 6%.

Power & Vision adjusted EBIT margin improved to 9.4% compared to 9.2% last year. This improvement primarily reflects higher foreign exchange gains and a $14 million increase in equity income, partially offset by spending associated with electrification and autonomy, a reduction in indemnity receivables related to the acquisition of GETRAG and higher warranty costs.

Seating sales rose by 4% to $1.42 billion, mostly reflecting the benefit of new launches, partially offset by certain programs that have reached the end of production and changes in production volumes and other programs. Excluding the impact of foreign currency translation and the net impact of our divestitures, sales were up by 5%.

Seating adjusted EBIT margin fell by 50 basis points to 8.1%. This decline, which we expected, most significantly reflects the negative impact of new facility costs, partly offset by increased equity income and higher net foreign exchange gains.

Lastly, Complete Vehicle sales rose by $411 million to $1.3 billion from last year, representing a 47% increase. The increase mainly reflects a ramp in production of the Jaguar E and I-PACE as well as the strengthening of the euro against the U.S. dollar compared with Q2 of last year, offset by lower volumes in the Mercedes-Benz G Class. Excluding foreign currency translation, sales rose by 36%, there's an increase in assembly volumes of 57% to approximately 34,000 units. Complete vehicles EBIT declined by $40 million from last year to $1 million, reflecting the negative impact of lower volumes and higher launch and other costs for G Class, as well as a Jaguar I-PACE.

I'll now review our cash flows and investment activities.

During the second quarter of 2018, we generated $467 million cash from operations, including an investment of $472 million in noncash operating assets and liabilities. In the quarter, investment activities amounted to $682 million, including $379 million in fixed assets, a net increase of $103 million in investments, other assets and intangibles, and our $200 million equity investment in Lyft. Excluding our Lyft investment, free cash flow improved by $29 million compared to last year's second quarter.

We returned $844 million to shareholders in the second quarter through the repurchase of 729 million of our stock, representing 11.7 million shares, as well as the payment of $115 million in dividends. So far in the third quarter, we've purchased 4.2 million shares for approximately $250 million. And to this point in 2018, we bought back almost $1.1 billion of our stock.

We've made some changes to our outlook versus what we provided when we reported first quarter earnings in May. The new outlook reflects the strengthening of the U.S. dollar, our estimated impact with tariffs and headwinds with respect to GETRAG's equity income.

In terms of 2018 light vehicle production, we slightly reduced our forecast for North America by about 100,000 units to 17.2 million. We reduced our outlook for total sales to a range of $40.3 billion to $42.5 billion from the $40.9 billion to $43.1 billion, a net reduction of approximately $600 million, of which foreign exchange amounted to over $600 million.

Our new sales range for 2018 represents an increase of 10% to 16% over 2017. We reduced our sales outlook for Body Exteriors & Structures and Power & Vision mainly to reflect the strength in U.S. dollar, partially offset by improved vehicle mix. And we reduced our sales range of Complete Vehicles mostly to reflect the lower expected (inaudible) and lower volumes in the Mercedes-Benz G class.

We have reduced our outlook for equity income this year entirely due to GETRAG. Our new range for equity income is $270 million to $305 million, down from the previous outlook of $335 million to $375 million.

Our consolidated EBIT margin range then reduced and narrowed to 7.7% to 7.9% compared with 7.9% to 8.2% previously. The reduction in our equity income forecast has a roughly 15 basis-point impact in consolidated EBIT margin, while tariffs has a roughly 10 basis-point impact.

We have reduced our outlook for net income to a range of $2.3 billion to $2.5 billion from $2.4 billion to $2.6 billion previously.

And capital spending has increased to $1.9 billion from $1.8 billion previously. This change substantially represents the approximate $200 million acquisition price for 2 of our facilities in the southern U.S. that we plan to purchase from Granite, partially offset by the impact of a strengthened U.S. dollar.

We reduced our EBIT margin range for Power & Vision to 9.5% to 10% from 10% to 10.5% previously. The change substantially reflects our reduction of Power & Vision equity income.

We also reduced our EBIT margin for Complete Vehicles to 1% to 1.5% from the 1.5% to 2% range previously. This reflects the low expected volumes on the G class this year and higher-than-anticipated launch and other costs as Magna Steyr gets through its ongoing heavy launch activity.

All other elements of our 2018 outlook are unchanged.

We expect free cash flow of approximately $2 billion for 2018, excluding the $200 million to acquire the 2 facilities.

We also reduced our 2020 outlook for equity income in our joint venture transmission business. This reflects a continuation of some of the headwinds that are negatively impacting us this year. We lowered our 2020 equity income range to $330 million to $380 million compared to $400 million to $450 million previously, representing a $70 million reduction. As a result of the lower anticipated equity income, we have also reduced our consolidated adjusted EBIT margin for 2020 to a range of 8.3% to 8.7% compared to 8.5% to 8.9% previously.

We revised the Power & Vision outlook for 2020 accordingly. We expect that Power & Vision equity to be in the $295 million to $335 million range for 2020, down $70 million, and adjusted EBIT margin is expected to be in the range of 10.9% to 11.5% compared to 11.4% to 12% previously.

Aside from these changes, we have not made any updates to our 2020 outlook, including updates on assumptions with respect to total light vehicle production volumes, material on announced acquisitions and divestitures and foreign exchange rates.

In summary. In Q2, we set second quarter sales and EPS records for Magna, along with records for adjusted EBIT and net income attributable to Magna. We returned $844 million to shareholders in the quarter. We adjusted our 2018 sales margins and earnings outlook largely to reflect the stronger U.S. dollar, headwinds associated with GETRAG and tariffs. We also reduced our 2020 equity income and EBIT margins to reflect lower expectations for GETRAG's joint venture operations. However, we expect to generate significant free cash flow during the second half of 2018 and we'll continue to return capital to our shareholders.

Thanks for your attention this morning. We will be pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from Itay Michaeli with Citigroup.

Itay Michaeli - *Citigroup Inc, Research Division - Director and VP*

Maybe just to start up with a couple of housekeeping. Referring to the $2 billion free cash flow that was confirmed, that excludes the higher CapEx? Then also, are you sticking with the -- keep a $6 billion free cash flow outlook through 2020?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Yes. So with respect to 2020, the outlook was greater than $6 billion, so we're still sticking with that. With respect to 2018, we're expecting about $2 billion, and that excludes the $200 million for the purchase of 2 facilities from Granite. When I think about the $200 million, from an accounting perspective, it's shown as fixed asset expenditure. But if you really think about this, this is just a refinancing. We had a debt obligation on our books, and we're converting it now -- sorry, we had an obligation now in our books because it was a lease obligation, and now we're putting it on our books as debt. So to me it's just a wash, so that's why I still referred to the greater than -- about the $2 billion of cash flow for 2018, excluding the $200 million on those 2 properties.

Itay Michaeli - *Citigroup Inc, Research Division - Director and VP*

Great. That's very clear. And then just on the equity income revision, maybe just add a little bit more detail around what was assumed in terms of penetration rates and the volume. What's assumed now? And just how are you feeling about the latest projections and the level of, kind of, confidence in how you arrived that as for the new level for now and through 2020?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Well, when you look at the equity income line, slightly intense on part been at some point, but let me just run for some of the macros first. If I compare, kind of, where we thought GETRAG was going to be in the quarter and where we ended up on the equity income line, we're about $25 million short on the equity income line. And I tell you, there's really 3 components in the quarter. A part of it was just volumes and other, which accounted for about -- probably about 5% of that shortfall. But the 2 bigger items that impacted the shortfall versus expectation was an inventory obsolescence provision that we took. We got us some receivable, and then I'll relate it to one customer that we're dealing with from a commercial's element standpoint, as well as some additional warranty based on experience -- transmission that's in the field, but volumes are ramping down, so again, I don't expect that to continue going forward. And that was about 40% of the shortfall versus expectation. The balance around, kind of, 50% to 55% related to, kind of, something going past 2017, when we talked about putting in some capacity, volumes are short, and we were discussing with the customer obtaining some reliefs for the capital that we put in place and extension that we incurred. Well, Discussions are ongoing, and we expect to recover something I think as we got through the end of the quarter, and we assess what we had built into our forecast for that, we thought it'd be more prudent to remove it from our forecast, so we're taking it out of our numbers for the second half of the year, but we're expecting to recover something. As I look at the second half of the year, then -- and we did reduce our equity income for the year, $65 million to $70 million, so part of it was already a shortfall in Q2. The balance of the shortfall, again, related to entirely GETRAG, and say about 2/3 of that relates to shortfall in volumes versus previous expectations. And 1/3 of that relates to what we had built into our outlook with respect to expected commercial settlement with our customer. So hopefully, that still comes along, but we've taken that out of the -- our forecast for the balance of this year. So Don, do you want to talk about the take rates or volume or what's going on in the market?

Donald James Walker - *Magna International Inc. - CEO & Director*

Yes. I think a couple of points. In addition to what Vince mentioned, if you take rate in terms of the manual transmissions in -- most specifically in China, we see that in Europe too, but in Europe, the transition is happening to the DCT, which are positively affecting us with various customers. In China, it seems to be a little bit more in flux as to the product mix and the property transmission that's going in, whether it's manual or CVT or planetary automatic or DCT. So that seems to be a little bit in a flux, and we continue to monitor that. Besides volumes, take rates of the different types of transmissions that are affecting what we're talking about today.

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

And sorry, just wanted to clarify just from an accounting perspective. So when you look at on the manual transmissions, it's -- but I think if you look at our consolidated annuities, we don't do a lot of manual transmission work in what we consolidate. So if I look at our European operation, I think -- versus expectations, are in line, maybe a little bit better. It's really our joint venture business where the manual transmissions are -- in Europe, as well as in Asia, and the switchover to -- away from manual transmission is higher than we expected. So that's negatively impacting our managed sales in Europe, as well as in Asia, as well as our equity income.

Itay Michaeli - *Citigroup Inc, Research Division - Director and VP*

That's very, very helpful. Maybe just a quick last one on the tariffs impact and the impact on 2020. Is that just being kind of absorbed in the new margin range? I think the only change was on the JVs. Or are you expecting to offset that over the next couple of years?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Itay, we -- how we typically would not update 3 years going out. The only update we did to our cherry outlook related to GETRAG. So we haven't adjusted for volumes, and we haven't certainly made any assumption as to the impact of tariffs or commodity cuts or exchange rates. So we'll update that -- I mean our complete outlook for 2020 when we complete our business plans, and we talk to the market in January of 2019.

Donald James Walker - *Magna International Inc. - CEO & Director*

As far as what's going on with all of the tariff activities, certainly, in flux internally, it's extremely complicated just to get our arms on everything, there is directed by, there is Tier 2, there is -- this probably look forward by categories where we're tracking things coming in and out of the U.S. in various countries. So we outline what we thought the impact is liable to be for the back half, where we would hope to offset everything. But being realistic, there's always negotiations and there's timing issues. So that's our best guess for this year. As far as what happens with tariffs long-term, it's anybody's best guess. I would hope that, eventually, we will get to the point where we have got an agreement on NAFTA, in which case, I think everything between Canada, the U.S. and Mexico I presume at that point gets resolved and then we'll just start to see what happens longer term with -- between the U.S. and China. So -- to the extent that we or our customers think it's going to be a longer term than we and our customers will be trying to take actions to mitigate any impact.

Operator

And the next question is from John Murphy, Bank of America Merrill Lynch.

John Joseph Murphy - *BofA Merrill Lynch, Research Division - MD and Lead United States Auto Analyst*

Just -- first question. There wasn't much discussion about this, sort of mention of recoveries on scrap steel or scrap metal. But just wondering how raw materials are impacting business now. Any change in the relationship of how those are passed on or dealt with your customers? And how you, kind of, see them impacting the business going forward?

Donald James Walker - *Magna International Inc. - CEO & Director*

Well, I'd say there is no change in how they are passed on. With steel resale, that's pretty clear. The extent there is directed buys and that supplier. So directed buys, customer tells us what supplier to use, but they are directed to supply to us. Those -- I would expect, our customers will pay us for, where we're buying this deal and we would hopefully pass it on. But quite frankly, we're having discussions with every customer and they're -- some of them -- I think they're still trying to figure out what they're going to do and how they're going to do it, that they can try and offset it. I think the ability to pass extra costs on to the end consumers, somebody have to determine based on competitive nature of the business. But it's -- I think it's too early to tell, and I think everybody's taking a little bit of a wait and see because we don't want to over turn to panic and over stress relationship with their customers. But if it's going to continue to go on, then we're going to have to -- somebody's going to have to come up with a conclusion. But it's pretty complex right now. I would say, nothing fundamentally has changed, because any time there's ever an issue, there is always a lot of negotiations within the business.

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

John, if you look at Q2 '18 versus Q2 '17, if I look at all our -- we'll see the resin recoveries on scrap, it looks very neutral, a little bit of costs in second quarter on a comparative basis. But as we move into Q3, Q4, what we're seeing in terms of commodity pricing, we're expecting some more headwinds, more than what we certainly experienced in Q2 for the second half of the year. And that didn't factor into our most recent outlook for 2018.

John Joseph Murphy - *BofA Merrill Lynch, Research Division - MD and Lead United States Auto Analyst*

But would it be fair to characterize, sort of, your current relationship with the automakers, particularly on new business bids and contracts being very similar to what we saw in the last 5 years as far as how raw mats are dealt with? Is that a fair characterization?

Donald James Walker - *Magna International Inc. - CEO & Director*

Yes. I'll have to ask -- I assume that to the extent where our divisions think that they're going to have more exposure, they ought to get it clarified in the quote. I haven't heard of anything different. I mean it's -- I haven't heard anything that (inaudible) a lot.

John Joseph Murphy - *BofA Merrill Lynch, Research Division - MD and Lead United States Auto Analyst*

Okay. And then just a second question to me. As we think about the Geländewagen ramp, it's tiring. I mean, is there something going on with the launch process? I mean it sounds like it's a little bit delayed or is Daimler being just hypersensitive in making sure they get this product 150% correct, with you just given it's a major change over for this first time in a couple decades? I just want to understand the ramp there, and why it seems to take a little bit slower?

Donald James Walker - *Magna International Inc. - CEO & Director*

Well, I think the ramp would have gone okay except there's 2 supplier issues, and one is behind us, the other one is still ongoing and impacting, so I wouldn't say they're being supersensitive. Now obviously it's a critical product, they want to make sure they get it right, and so do we. But right now, a shortage of supply, and they're still dealing with it, so we can't make the vehicle. So that's the current status.

John Joseph Murphy - *BofA Merrill Lynch, Research Division - MD and Lead United States Auto Analyst*

Okay. And then just lastly. I mean if we think about consolidation in the supply base, it seems like there's 2 critical areas that you're in with there's opportunity. First on the ice powertrain side and then second on seating. I mean, what are you seeing out there as far as acquisitions and the potential to either be the consolidator or contribute assets to what might be a larger entity on the powertrain side or on the seating side? I mean just on both of those segments, I mean how are you thinking about consolidation?

Donald James Walker - *Magna International Inc. - CEO & Director*

Well, on Seating, we -- you know the seating players well. We continue to grow business, so our seating business we are pretty pleased with the ongoing book of business and the ongoing business. As far as any consolidation, I can't really comment. I mean there's not a huge number of suppliers. There could be a bit more consolidation, but it's -- I wouldn't have much more to comment on that. As far as, I think, 2 areas, quite frankly, the powertrain and the trend towards more electrification in that area, and ADAS, which is again a lot going on new technology, new players, a lot of players in there. I would expect over time you're going to see more consolidation, pure suppliers, the people, the technology, and few of our competitor will probably continue to win business. So we continue to look at the -- on the powertrain side where the technology is required to have a competitive price on a systems approach. I think the if you've really want to be a big winner here, you're going to have to be a supplier that can give pretty big solutions to a system -- a powertrain system, and that's why we put together -- that's why we buy GETRAG, that's why we're building up our electronic expertise to -- within our driveline expertise, and we continue to focus pretty heavily on what -- where the building blocks we need to be, one of the best in the world in that area.

John Joseph Murphy - *BofA Merrill Lynch, Research Division - MD and Lead United States Auto Analyst*

So maybe, Don, just one follow-up. I mean, so you basically are looking at sort of smaller acquisitions to build up the portfolio and go at this a little bit more organically as far as winning business over time as opposed to any kind of larger acquisitions that have, kind of, been rumored out there in the markets? Is that a fair statement?

Donald James Walker - *Magna International Inc. - CEO & Director*

Yes. Right now, I'd say we did -- when we buy the GETRAG, that was a big acquisition and we got a good handle on that, integrated that fairly well. We're tending to look more at technologies and making sure we got full capability from an engineering and software standpoint. However, we still got the balance sheet if we want to do a bigger acquisition, we can do it. So we're looking at all options.

Operator

The next question is from Peter Sklar with BMO Capital Markets.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

Vince, you've carved out a couple of items that I don't think you excluded from adjusted earnings that appeared to be nonrecurring. One was the -- I think it was $22 million of foreign exchange costs related to a deferred tax balance and then there was the fire at the Meridian plant. Are there other items -- I mean there's a lot of puts and takes during the quarters. Are there other things that you would highlight as unusual?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Yes. I think you've got the sort of the deferred tax item and it relates to pure translation of deferred tax assets denominated in local currency, where the functional currency is different than local currency, it's essentially Mexico. And you said $22 million, about $0.04, and Meridian most of it $0.04. When I look around the various, sort of, results for the segments, I just puts and takes everywhere and they probably all, kind of, bounce out. Those are the 2 most substantial, but certainly, we ending (inaudible) other things that even took place in the quarter, things we weren't anticipating.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

Okay. And Don, I wanted to ask you to just about putting aside the issue of tariffs, how Canada is unfolding as a jurisdiction for manufacturing by Magna? Is any of Magna's divisions still deploying capital in Canada? Or is your growth in other jurisdictions?

Donald James Walker - *Magna International Inc. - CEO & Director*

Well, we've said for a number of years, we don't -- I don't anticipate adding any more divisions in Canada. I mean, never say never, there could be no (inaudible) seek facilities on that, that has to be standalone. We've got pretty good coverage in Canada, so we wouldn't be adding divisions. But we have been spending at the rate of -- on an average over the past 3 years about CAD 300 million in our existing divisions. Quite frankly, what's the -- what was happening with the previous government of Ontario, I was pretty public, I didn't understand what they were doing and why they were doing a lot of things which was going to make it more uncompetitive for manufacturing in Ontario. So it will be interesting to see what the new government does. But they certainly be -- certainly seem to be more interested in doing the things that are required to allow us to be competitive in Ontario. I haven't seen a recut this year of the capital or the forecast. We'll see that in the fall. So I'm certainly more optimistic we can be competitive here. Excluding any impact -- a long-term impact on tariffs. I think the government -- the federal government clearly understands how serious this issue is and most of the governors in the northern states also understand it. So I'm going with the assumption that at some point in time not to get to agreed to and we're back to normal. It will be interesting to see what happens in any renegotiated NAFTA between the U.S. and Mexico, to see whether -- I think the whole thrust here is going to slow down in movement of assembly plants down to Mexico. But that's going to in -- going to require elements. I think it's going to have to have free trade outside of the U.S. to other areas like Europe, I think because that's a benefit that Mexico has right now, and we'll see what happens with the Mexican labor rates. I doubt anything drastic happens there, but there maybe some mechanism put in place to make it less attractive to put assembly down there, so with the steps to new comers to the extent that new plants within Mexico, that means probably the U.S. and maybe Canada has more of a shot to get somewhere in Europe in assembly plants.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

Okay. And lastly, Vince, on the acquisition of the properties from Granite, I mean did you own quite a few Magna properties? How it -- can you talk a little bit about which properties are important or significant for Magna to buy back? And should we expect future acquisition of properties?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Look Peter, we have a long-term arrangements with Granite on our significant properties, and a lot of them we have right of first refusal. So what ended up happening was that Granite had secured a buyer for these 2 facilities in the United States. We had the right of first refusal. We presented what the price was going to be. We had some analysis on it. We looked at our financing costs were, how key these properties were. And, kind of, when you look at the debt obligations through the lease versus going out and financing ourselves in the market longer term, it was actually a little bit positive for us from an earnings perspective. We gained complete control of those properties, so we decided to go ahead and do it. I mean there's cases in the past with some of our rights to the first refusal where we have cost up on the properties. So I think if you look forward, and the same situation applies, I think we have to look at it case-by-case. But going out and buying these properties does not impact our leverage ratio. We take in to account lease obligations and our calculations are neutral. In fact as we get into 2019, with the change in the way the cap releases, it's not going to impact at all even the balance sheet.

Operator

And our next question is from Rich Kwas with Wells Fargo.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

I wanted to just ask further on tariffs with regards to China 301. Any impact there in terms of components that you may bring in to the U.S.? Any meaningful impact?

Donald James Walker - *Magna International Inc. - CEO & Director*

Yes. We're still analyzing. They've got 3 groups of products, so we've got a pretty good analysis done of the first round. It's not material, but there are some products that we're bringing in. The biggest one is the wire harnesses. They're not big wire harnesses. They're smaller ones, so the extent we think it's going to continue, we will probably look at moving some of those things. But quite frankly, the analysis on what's happening with China is ongoing just because we're -- the last list was so many parts, but we're looking at what the impact would be on things like tools long-term and other things. So at this point in time, I wouldn't -- it's not material, but every time [ending] cost is anything obviously we're concerned about it, we'll have to try and figure out what to do. In the case of what's happening in Canada, I think the Canadian government has been very responsible in what they're doing to make sure that our [competitive] is not being hurt. To the extent things happen where we're obtain duties out of China, then I would expect if there's nothing resolved between the U.S. and China, then that could go on a lot longer, and we'll just have to figure out what our options are.

Seetarama Swamy Kotagiri - *Magna International Inc. - Executive VP, CTO and President of Magna Power & Vision*

So Rich, with respect to China, there's a number of lists. One list is already in place. And Don talked, there is an impact on that first list already in place, and we have factored that impact into our guidance, the $30 million impact for second half of 2018.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay. So basically, the $30 million for the second half includes the first list for China. And then, Don, what you were referencing was this proposed $200 million that could go into effect that you're working through the numbers, it's not material, but still kind of working through potential...

Donald James Walker - *Magna International Inc. - CEO & Director*

I don't think they're material, but we're still working through, because quite frankly [I'm not sure]. We've got a pretty experienced team on this to -- I'd say, probably the most experienced team in the industry frankly and we're working closely with the government, both in the U.S. and Canada, but I'm not sure if they've come to a final analysis of that full list because it's a long list.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Right. But the stuff that's in place right now is included in the outlook for the second half?

Donald James Walker - *Magna International Inc. - CEO & Director*

Yes. What we know about it.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay. And then as you think about -- with DCT, with the volume, so we haven't heard anything from one of your peers, competitors over there with regards to -- they had a pretty good DCT business and they've been growing pretty nicely there. And it doesn't seem to have been an issue for them here, at least in the recent quarters. So just curious, what's changed? I mean, I know it's changed, but I mean, with regard -- are you using IHS volumes, take rates? have you made your own assumption based on what you're seeing in the field, on the ground, et cetera? I mean, how conservative is this outlook as we look out, not just obviously this year, but beyond '18?

Seetarama Swamy Kotagiri - *Magna International Inc. - Executive VP, CTO and President of Magna Power & Vision*

Rich, I think we continue to see according to our expectations, a growth of the DCT market as we talked about in the last 2 or 3 years. And we also see the proliferation of the DCT into the hybrid side we call the hybrid dualplex transmission. And we are seeing good progress in Europe as well as some discussions from China, but significantly in Europe. We are actively engaged in 2 or 3 substantial programs both from North American as well as European OEMs, most specifically to European market right now. But we continue to see very optimistic roadmap in line or actually maybe even a little better than what we had thought when we did the GETRAG acquisition.

Donald James Walker - *Magna International Inc. - CEO & Director*

We have to take a step back, too, Rich. And we talked about the [drag and lowering the] numbers. We lowered the numbers versus expectation, but even with forward numbers, we are seeing increased sales (inaudible). As we look at what we consolidated in Europe, we're seeing DCT sales continue to grow. And what we're finding there is people are moving away from manual transmissions faster than we anticipated. We're benefiting then from a net perspective in our wholly-owned operation. When we look at our joint ventures, which is where we reduced guidance, year-over-year just in the second quarter, sales are up 18% on a managed basis. If I look at full year outlook, even though we've brought down our numbers, we're still expecting 7%, 8%, 9% growth on a year-over-year basis and even up to 2020 compared to '18, we're looking still at 8% to 10% growth. So I'd say that versus expectation, the slope of growth has kind of come down a bit, but the business is still growing, and it's a good product, a good technology. It's fuel-efficient, and it's in greater demand by our customers, and so we expect continued growth in this area of the business.

Seetarama Swamy Kotagiri - *Magna International Inc. - Executive VP, CTO and President of Magna Power & Vision*

And I think the hybridization aspect that we talked about picking the right architecture (inaudible) in the improvements in CO_2 has been validated by the programs that we are seeing in the hybrid side.

Donald James Walker - *Magna International Inc. - CEO & Director*

I think the one -- you asked a question that somebody else may not have seen the same thing. Pretty much everything we've talked about here is impacting between us and one specific customer, on an older transmission and some volumes going forward. So if they're not supplying that customer, they may not have seen it, so it's a pretty specific situation.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

And then are you working [quoting] business with this customer? I mean you had to write down some stuff. I mean what's your -- how do you look at this customer going forward? I mean, I know it's a sensitive topic, but I mean I guess -- is this customer -- is this sort of thing going to be a risk going forward?

Donald James Walker - *Magna International Inc. - CEO & Director*

It's a -- there is always issues. I mean there was an issue -- a quality issue, so we would have had some tough discussions, but I still think that we have a regional business relationship with them. And I think they would still be a good customer going forward, and we're looking at what type of transmission they want, and we have the right technology, so it's not like it's broken but it's in a -- I think everything else is a tough discussion.

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Short-term and long-term.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Right. Okay, okay. Great. And just real 2 quick ones. Vince, did you say Meridian was worth $0.04 for the quarter?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Yes, that [$18] million bottom line [booked] $0.04.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay. And then the CapEx, the guide up was a net $100 million, but that includes the $200 million for the facilities, right? So it's like a net -- it's $100 million lower on an apples-to-apples basis? Is that the right way to think about it?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

That's what -- Rich, I think, just a couple of moving pieces. So one is, we're at about $1.8 billion, add $200 million to that, that gets you to $2 billion. What brings it down are 2 things. One is foreign exchange translation. We talked about foreign exchange translation. It impacts the income statement, it's going to impact capital. And also, as we look at kind of timing of expenditures, looks like some the capital that we thought we were going to spend in '18 will probably be pushed into '19.

Operator

And the next question is from Chris McNally, Evercore.

Christopher Patrick McNally - *Evercore ISI Institutional Equities, Research Division - MD*

I'll leave some of the fiscal detail to my peers, and I just wanted to ask a couple of strategic questions about auto 2.0 and mobility for Steyr. So we saw [main] mobility, you have the announced JVs with BAIC. Just 2 questions. Could you help us understand the financial requirements Steyr would need to sign up a new tech entrant, as traditionally, you've worked with more established and mature OEMs? Then I guess the second, as we think about the scale for Steyr to grow over time, how should we think about the possibility of potentially doing a mega program, something in the

6-figure type volume product, obviously understanding it would require maybe an additional facility that the ROIC, EBIT metrics made sense. Just thoughts around Steyr would be very helpful.

Donald James Walker - *Magna International Inc. - CEO & Director*

Well, Steyr runs like a business union side. So they obviously have to meet the same metrics and the targets, return on invested capital, et cetera. We have been assessing for years now what should be the next step that we would want to take to be able to offer complete vehicle engineering, which we have been doing in China already, quite frankly. But on a bigger scale as well as assembly, it's like a chicken and the egg, because it's always a big decision. In this particular case, it's electric vehicles, it's in China, it's in a good location, it's with a customer that has been very successful on EVs, it's got the license. It also allows us to develop a new product with them sort of from ground up that we could offer to other people which we think might be attractive to other OEMs or entrants. It would be interest in that platform, we can build it there, so it gives us a good growth opportunity in China, which is a pretty important market, especially for electric vehicles. And we'll continue to look at what the opportunities are given Steyr's -- I think they've got unprecedented capability for vehicle engineering and assembly and program management and sourcing, and there's other potential new entrants coming in that might also be interested in some of these opportunities. So it was a -- we did a lot of analysis in this. It's a new products, so you have to make sure you got the product right and marketing right and they are responsible for that, but we will be very interested in making sure that they can sell the vehicles as well.

Unidentified Analyst

And with respect to a very large volume program, because obviously you've been on a basically a product line by product line basis. Could you just discuss maybe the considerations you would have to have? And would you ever consider basically creating a separate facility if the economics made sense on a much larger program?

Donald James Walker - *Magna International Inc. - CEO & Director*

Sure. That would be something that we'd be interested in. I think long term, it will depend on number of different things. You have new entrants that come in that don't really -- want to have a vehicle, whatever the vehicle may look like, and they don't have the expertise to own and develop the expertise to engineer, develop and build a vehicle, if their primary interest would be more getting data or interface with the consumer, that's a possibility. We could do any volume quite frankly. We'd be pretty capable of doing that. It'd also be interesting to see the OEMs at some point in time, do they want to keep deploying their capital into assembly when they could give it to us. And we're seeing more and more customers looking at using us for smaller volumes, 20,000, 30,000, 40,000, 50,000, 60,000 cold be -- would they be interested in doing it for a higher volume? I believe they will, as they look at where they wanted to deploy their capital. And then we basically have a pricing model that says it's a lot of capital that they have to cover our risk if the volumes aren't there.

Seetarama Swamy Kotagiri - *Magna International Inc. - Executive VP, CTO and President of Magna Power & Vision*

Chris, I think when I think of the -- our Magna Steyr model and opportunities and we said even in Graz or we built a new facility in Eastern Europe. Just 3 big buckets that I look at. One is, engineering for a particular program, how do we recover the engineering? I'd like to have quite a bit of degree of confidence that we have recovered the engineering regardless of volume. Those will be big specific capital requirements for that particular program again. I want to have a high degree of confidence that we're going to recover all that. And this is going to be capital we put in place it will be applicable for a number of programs we're putting in an investment for [paint] facility. What I'd be looking for us, how do we recover the allocated cost of the paint facilities regardless of volumes for the capacity reservation charges and that's kind of the way we have modeled things today at Magna Steyr. Because the way I kind of look at the return metrics for Steyr and what I'm looking for is a little different than our other business where I'd say on capital, we'd probably take on more risk and on engineering, we'd probably take on more risk than the specific Magna Steyr model.

Operator

And the next question is from Dave Tyerman with Cormark Securities.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

My first question is just on the tariffs. So the $60 million annualized impact, is that entirely China or is there stuff from Canada, Mexico, et cetera?

Donald James Walker - *Magna International Inc. - CEO & Director*

That's everything, including China.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Would it be concentrated in one area or the other, geographically?

Donald James Walker - *Magna International Inc. - CEO & Director*

Well, just trying to think. We have a pretty complicated chart where we are tracking everything from every country, what the customer is responsible for, where we think that we'll get coverage, where it will be negotiations, primarily...

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

Yes, David, when you look at it, the most significant component is cost for U.S. operations.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Sorry, could you say that again, Vince?

Donald James Walker - *Magna International Inc. - CEO & Director*

Yes. The most -- so our operations that are impacted are plants, most of the costs relates to our U.S. plants, with some impacts -- smaller impact in Mexico and smaller impact to our Canadian plants.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Okay. So when you say most of it is on U.S. plants, how would their costs have been elevated? Would be higher steel prices or...

Donald James Walker - *Magna International Inc. - CEO & Director*

It's primarily steel, aluminum and some things that there are on the 301 list coming out of China to the U.S.

THOMSON REUTERS

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Okay. That's helpful. And then on the transmission JV challenges. So if I understand what you've been saying correctly, it sounds like it's mostly bringing the guidance down, particularly for 2020, due to the manual transmission declining, and the DCT sounds like it's pretty much as expected or even better. Is that the way to think of it?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

I think when you look at 2020, so as we look at [equity,] the impact is certainly manual transitions take rate. Some of it is volume, when we look at the type of transmissions we've got, dry clutch transmissions, wet clutch transmissions. It's certainly a growing interest and demand for wet clutch transmissions. On the dry clutch transition which is an older program, volumes are a little softer than we think and we expected them to come off but it's coming off faster than we what have anticipated, so that's impacting 2020.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Okay. So it's a combination of both the manual and the dry clutch DCTs specific program it sounds like.

Seetarama Swamy Kotagiri - *Magna International Inc. - Executive VP, CTO and President of Magna Power & Vision*

Yes. It is a softening of the older product line and on the dual clutch transmission with a low-torque dry clutch. And it's coming off faster than what it was supposed to be. But if you look at current product in the [MAX acceleration] whether it's a DCT300 with a wet clutch, with the broad range of torque, as well as [HDTs,] I think we would see a definite recovery.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Okay. So this sounds like it's kind of a temporary thing and as your newer products come on, they fill the gap. And then just with the electric vehicle project, can you just sort of sketch out how this launches? Like you have 180,000 capacity, it sounds like it starts in 2020 to begin to impact you. Do you lose money initially, and then it ramps up to whatever kind of target possibility there is over 2 or 3 years. That's the idea?

Donald James Walker - *Magna International Inc. - CEO & Director*

Yes. So there's 2 joint ventures. The one, they are paying the [engineering] joint venture to engineer the vehicles, so that should be a reasonable business because it's engineer and ops, we have normal margins on that. There's going to be -- just trying to think what we said publically, but there's --

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Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

I think David, when you start looking at the volume ramping up, the bigger impact is going to be in 2021 versus 2020. It starts to ramp up, and then we haven't given a lot of guidance in terms of impact on the results. We're still working through all the details with the joint venture.

Donald James Walker - *Magna International Inc. - CEO & Director*

Yes, I'm just trying to remember what we said publically. There's a number of vehicles just coming off a couple platforms and so we are going to make these under contract and sell them to our customer. Our joint venture partner is our customer, so there shouldn't be a lot of -- there's not a lot of startup costs, and it's beyond -- we start production in 2020 and then sort of ramps up on there, so it'd be further out by the time we get to any substantial volume.

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

The assembly facility is not consolidated as well, so you're going to see -- you're picking up an equity income about 100% of the...

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Right. Yes, no, I got that part. Okay. And then just the last question. Your counterpart, Don, over at [Linnemart] commented on that last night, and I thought she was somewhat positive, in that it sounded like there was a possibility that the content stuff is getting resolved. I guess there's other general things like dispute settlement and [sunset] that are still out there. What's your view on where we are in all this and timing?

Donald James Walker - *Magna International Inc. - CEO & Director*

It's hard to say. That sounds probably pretty accurate. I know [Linda] has been heavily involved. I've been heavily involved but I haven't a discussion with anybody in the last week, quite frankly. I think I got the impression that we're pretty close on some of the content discussions, and there was the other issues you just mentioned that are probably the blocks. I'm not sure what issues are quite frankly and between the U.S. and Mexico, I know they're having discussions. So logic would say that everything's happening here to try and put pressure on -- to get a plan on negotiation on NAFTA. But the longer this goes on and I think that everybody is aware of this, the worst it is for NAFTA, including the U.S. And I think they understand that as well. So I am hoping that they'll get over whatever the discussions are, and there's some pretty tough issues there. I would hope that we do see something in the next few months. But I would have said that a few months ago. It's hard to say. I think eventually, we have to get it resolved or else it's going to be a big lose for everybody.

Operator

And our next question is from Michael Glen with Macquarie.

Michael W. Glen - *Macquarie Research - Analyst*

Just a follow-up on the equity income line. Can you identify -- the forecast that you've given for the GETRAG, can you break that down by customer concentration? Like are there some customers in there that make up the vast majority of that line item?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

In terms of the reduction? Sorry, in terms of what, the change in outlook?

Michael W. Glen - *Macquarie Research - Analyst*

Just the entire -- just the whole number. Is there like what -- is it highly diversified or are there some large bucket customers in there?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

In our [track] business we have a number of customers that we supply manual transmissions and DCT. Some of them are European customers -- a number of European customers, a number of Asian customers, so it's pretty diverse. I don't have the numbers in front of me on how that splits up between what's basically (inaudible) and what's consolidated.

Donald James Walker - *Magna International Inc. - CEO & Director*

You're talking about the volume decline as opposed to the commercial issues there?

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

I think he's talking about our business in total.

Michael W. Glen - *Macquarie Research - Analyst*

And the one -- I mean, the one customer that you're sort of flagging that you -- that created a bit of an issue this quarter, do they represent a meaningful portion of that equity income line in terms of the projection going forward?

Donald James Walker - *Magna International Inc. - CEO & Director*

They're a fair size in China. Most of the issue in this quarter has been to try and wrap everything up that are going on in discussions with them. I would say that, going forward, they represents part of our sales, a number, but not a meaningful number. We (inaudible) pretty diverse as far as what we do in Asia.

Michael W. Glen - *Macquarie Research - Analyst*

Okay. So the issues that you saw this quarter related to that customer, you -- they are very much concentrated in this quarter? You don't see that as impacting the business -- the future business with that particular customer?

Donald James Walker - *Magna International Inc. - CEO & Director*

Yes. In China. We had some of it in joint venture in Europe as well, but in China, that's what primarily this was.

Vincent Joseph Galifi - *Magna International Inc. - Executive VP & CFO*

And I think as we're looking at [take rates] there's other customers as well that are being impacted by the delay from manual transmissions that we talked about, the dry clutch. So there are some other customers from a volume perspective. The biggest impact in the quarter, even for outlook, well, [everything] in the quarter was that one particular customer, which will impact us for the second half of the year as well.

Michael W. Glen - *Macquarie Research - Analyst*

Okay. And just a clarification. In terms of the steel and aluminum tariff. Is there a change in the way the OEMs are asking you to maybe absorb a bit of this price inflation? Has that conversation changed at all?

Donald James Walker - *Magna International Inc. - CEO & Director*

It's all over the map, and I think it's too early to tell. I think a lot of our customers are saying, "let's try and track the costs. let's figure out where this is going to go." They'll all want to try to offset it somehow, and if we can help offset something, we're happy to do that. Some customers already made adjustments, others are in the process. Some are still analyzing it, so it's too early to tell. I don't think -- this doesn't fundamentally change anything. And quite frankly, every time anything happens in the industry, we'll have lots of tough negotiations. But at the end of the day, the supply industry can't absorb this. We either have to offset it or pass it on, and I know that the car companies can't predict it either, so they're going to have to figure out what to do with pricing.

Operator

And gentlemen, those are all the questions we have for today, and I'll turn it back over to Mr. Walker.

Donald James Walker - *Magna International Inc. - CEO & Director*

Okay. We appreciate everybody for dialing in listening today. We certainly had some headwinds this quarter. But even with that, we posted a good quarter, and we'll continue to work hard and continue to generate strong operating results. So thanks for your interest. And everybody, have a great day.

Operator

And ladies and gentlemen, that concludes our conference call for today. We thank you for your participation. Everyone, have a great rest of your day, and you may disconnect your line.
